Norman, John Henry

"Coin's financial school" and Norman's... pt. 2

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"Coin's Financial School" and Norman's "Science of Money" compared.—II.

By John Henry Norman.

Coin commences the lecture of the third day, after a pleasant salutation to the groups around him: "The "science of money is an exact science, as much as "mathematics." It is not necessary to comment upon this. When the science of money—if there is a science—is better understood, that assertion may be argued. Unfortunately, Coin intermingles money with credit. Under the heading "Money as a Science," he has twenty-nine short paragraphs, and under "General Principles" he has eleven short paragraphs, and at the commencement of the lecture, following on the declaration that money is an exact science, he has six more short paragraphs. In the main, the words of these forty-six paragraphs will be given. Each paragraph cannot be reduced to, and presented as, a dogma; where it is possible it is done.

Coin's Money as a Science.

1. Strictly speaking, nothing is money except that *commodity* which has been selected to be money. It is a common thing for us to refer to national bank notes, greenbacks, and other forms of paper money as "money."

2. All money may be a medium of exchange, but primary money only is the measure of values. Credit money is not a measure of values; it is a medium of exchange only.

3. The primary value of all is its exchange value. If we had no money, one kind of property would be exchanged for another. A bushel of wheat would buy about so many pounds of sugar, and so on. This is meant by the exchange value of property. Money is a medium of exchange to facilitate this exchanging of property.

4. If there was no money, and we had to depend on exchanging property for property, we could find a subsistence, but there would be no such thing as our present civilisation or anything like it.

5. It was deemed best to select something for money which was valuable within itself; something that had an exchange value, so that he who parted with his property for it had something which was itself valuable.

6. By stamping this something as money and making it legal tender in the payment of all debts, it then became money and possessed two qualities.

7. First, it had value in itself. If the Government went to pieces that had stamped it, it was still valuable property and would have an exchange value.

8. Secondly, when made money it became a common medium of exchange and took the place of barter in trade. The stamp of the Government upon it became a certificate of its quality and quantity. Thus, by making a commodity into money, we had a medium of exchange that was both useful and valuable.

9. After a nation has fixed what its money shall be it then issues different forms of credit money, all of which are directly or indirectly redeemable in *the commodity to which a fixed and stable value has been given.* It does not add one dollar to your actual money but represents your real money, and, being easier to carry, is a convenience.

10. There are two kinds of credit money. One is made on paper and embraces all forms of Government and bank notes that are issued from time to time as authorised by law. The other is token money, which is made of some metal that does not enjoy free coinage.

11. Credit money of all kinds circulates by reason of its being redeemable directly or indirectly in money—in redemption money, property money. A piece of paper money, *or token money*, is a promise of the Government to pay so much money. The money promised is redemption money.

12. With so much paper or credit money in your possession, there is supposed to be that much redemption money to your credit with the Government or bank issuing it. It is a cheque to bearer for money when presented.

13. Hence it is called credit money. It circulates on the credit of the Government, on the confidence of the people that the Government will be able to redeem it if it is presented.

14. Credit money may be likened to wheat certificates. Such certificates are traded in. Each time one of them is transferred, it is equivalent to transferring the wheat itself. Wheat is behind the certificate. A man does not carry a brick house around in his pocket, but he can carry the title deed for it.

15. In issuing dollar for dollar of credit money to redemption money, it is not necessary that the Government should keep the latter at all times in its treasury in full amount, ready to redeem all the credit money.

16. Experience teaches that, so long as sufficient redemption money is in the country, the credit of the Government can be depended upon to get it. But it cannot strain the proportion beyond such amount without making the danger imminent and the lack of confidence great.

17. If there is one thousand million dollars of redemption money in the United States, in its treasury, its banks and among its people, then one thousand millions of credit money can be safely used and not more.

18. If you want to increase the currency you may in safety do it by adding to the redemption money, and for each dollar so added one dollar of credit money may be added.

19. To vitiate the currency, increase the credit money beyond its normal quantity, or dig out the foundation from under it by lessening the supply of redemption money.

20. *The demonetisation of silver destroyed one-half of the redemption money of the United States. It did it in this way: By making gold the unit and closing the mints to silver, and its commercial value at once began to depreciate as measured in gold.*

21. Where, before, gold and silver had been tied together as one mass of commodity money, and all property had its value measured by it, now gold became the only measure of value and silver became credit money—token money.

22. The moment a new standard of money was set up (only one-half in quantity to what had previously existed) silver began to fluctuate. It was then measured for its value in this new standard for measuring values and bobbed up and down in the market, no longer possessing that *fixed value* which free coinage gave it. It was like a kite without a tail, and its course was downward. It had changed its position from redemption money to token money.

23. A forced parity between silver and gold has since been obtained, namely, by sustaining silver with gold. It is of the same kind of parity the Government maintains between gold and paper money. What this means is, gold is our present redemption money, and our credit money consists of silver and all forms of paper money.

24. Each succeeding Secretary of the Treasury points to the law, declaring it to be the intention of our financial system to maintain all our money at par. Gold is the most valuable of all our money, and therefore to maintain it all at par gold must stand under it and do the work of redemption money.

25. The law simply states an axiom in sound finance. *All of our money should be at par with one kind of money just as good as any other kind of money.*

26. *It is impossible to maintain two kinds of redemption money with one made from property having a commercial value of only one-half or any noticeable per cent. less than the other. When such is the case the lesser must lean on the greater, and to all intents and purposes becomes credit money, while the more valuable becomes the only redemption money.*

27. We have, in the United States, in round figures, $1,600,000,000 of all kinds of money. About one-third of it is gold, one-third silver, and one-third paper. One-third of our money is redemption money, and two-thirds is credit money.

28. The blunder was made when silver was demonetised. The remedy is to remonetise it and thereby restore its commercial value. Purchase Acts, or any treatment of silver short of free coinage, will have no beneficial effect.

29. Commodity money is the measure of values. Its *quantity* becomes the measure, and each dollar is a part of that measure. Credit money adds nothing to its value; it only facilitates the transaction of business based on that measure of values.

30. Our commodity or redemption money up to 1873 was both silver and gold, and our credit money was paper and copper. Since 1873 our redemption money has been gold, and our credit money has been paper, silver, nickel, and copper.

31. As redemption money is our measure of values, nothing can take its place and assist it in its work that is not of equal commercial value.

Norman's Science of Money.

In the opinion of the writer it is impossible to draw too broad a line of distinction between money and all forms of credit instruments and tokens for money, which, under certain conditions, can for certain purposes be used for doing the work of money all the time the standard substance, or measure of value, or equivalent in exchange, or the chosen intermediary commodity, or primary money, or redemption money, is forthcoming in exchange for credit instruments defining the weight of standard substance for which such instruments are exchangeable without question, delay, or expense. He holds that there is a science of money and a science of credit. Coin has mixed these two sciences up. The writer has dealt only with the science of money. The science of money is rigid and universal. Perhaps it may be said that the science of credit is somewhat elastic, and in its relation to money might differ in different countries. In the writer's criticism of Coin's *Money as a Science*, he does not intend to do more than confine his remarks to Money; the equivalent in Exchange.

I.—Money, What it is. Its Conditions and Laws.

Article I.—It of necessity possesses two functions. First, and that which is vastly the most important, it is a measure of value; and, secondly, it is a means of payment.

Article II.—It is a commodity used as a measure of value of all services, other commodities and properties within a country and between countries possessing the same commodity as a measure of value. It is also a means of payment for the purpose of facilitating the interchanges of services, commodities, and properties between man and man and between community and community.

Article III.—It is a measure of value by means of the value-giving factors it contains. These value-

giving factors are expressed in the terms *cost of production*, the main ingredients in which are past and present labour.

Article IV.—As a measure of value, it must possess value. It is intended that it should do its work by its value. That the value-giving factors in the chosen intermediary commodity should exchange with services, other commodities and properties in proportion to the value-giving factors contained in each.

Article V.—If these conditions are sound, it necessarily follows that the true and sole definition of money is the intermediary commodity or standard substance appropriated to currency purposes for facilitating interchanges of services, commodities and properties.

Article VI.—The intermediary commodities used as money or measures of value and means of payment by the civilised and semi-civilised peoples of the world are gold and silver, in the shape of bullion and coins, at the present time.

Article VII.—A scientific automatic monetary standard of value and means of payment is a conditional thing. The conditions are: (*a*) The substance forming the standard must be received by the State, which accepts it as a standard in unlimited quantities from any place or person in payment to the State, and at mints should the State possess any. (*b*) The substance must be fitted for monetary purposes by the State or other constituted authority. (*c*) The substance must be made unlimited legal tender. (*d*) There should not be any charge for coinage or for adding alloy to the pure metal forming the standard coins, so that the value of the pure metal in the standard currency shall be the same as an equal weight of bullion. (*e*) Standard coins should be kept up to mint issue weight at the cost of the whole community.

Article VIII.—Any laws beyond those necessary to secure the conditions mentioned under (*a*), (*b*), (*c*), (*d*), and (*e*) of Article VII., and to protect against fraud, should have for their object to preserve the standard substance against favour or fetter by the operation of monopolies, rings, and corners.

Article IX.—A scientific monetary standard cannot possibly be made out of two commodities, because an attempt at it must embrace a fixed ratio between the two substances. It is unthinkable that any fixed ratio would conform to the comparative average cost of the production of the two commodities. If one should be favoured the other would be fettered; if one should be fettered the other would be favoured. And thereby monopoly prices would be secured for one class of producers, and a direct incentive would be given to the formation of rings and corners under the deliberate action of the State.

Article X.—There are other instruments to be used as intermediaries, such as metal tokens of, and paper promises to pay, the standard substance, which may be safely—if prudently issued—used as substitutes for the standard substance in a country possessing a scientific automatic monetary system. But the moment that the standard substance cannot be obtained of the weight indicated upon the State notes payable on demand at the desire of the holder of the note, the system of currency ceases to be a monetary system, and has degenerated to a currency system of inconvertible paper.

Article XI.—Since experience shows that international interchanges accommodate themselves to any system of monetary and currency intermediary, a country's primary object should be to possess a metal measure of value and means of payment of such a quality as is practicable, which shall present, over lengthened periods, the most stable measure of value, for the sake of the internal interchanges of the country and the deferred obligations of the inhabitants. The secondary object is to possess the best substance with which to conduct their international interchanges. That substance which would meet the two objects, of course, is preferable.

Article XII.—The condition of interchanges between the people inhabiting the continents and islands of the world should be carried out upon the terms of barter. The terms of barter are value-giving factors in this thing, with or without the unearned increment, for value-giving factors in that thing, with or without the unearned increment, to the benefit of each country and island in the world. It is readily seen that the terms of barter would so hamper interchanges as to well-nigh throw civilisation back into barbarism. An intermediary, with its two results, price and a rate of exchange, is a necessity. With one intermediary for the whole world, interchanges would be carried out upon the terms of barter. With more than one intermediary and fluctuating ratios between them, interchanges of things for things cannot be carried out on the terms of barter. The world's experience since 1873 has demonstrated this, and it may be truly said that the key to the derangement of prices and the threatened destruction of industries in some countries possessing the gold standard is found in the use of four intermediaries, instead of one only for the whole world.

Article XIII.—Money is not a printed, written, or verbal promise or order to pay a given weight of the intermediary commodity. For such promises or orders do not possess the value-giving factors equivalent to the value-giving factors contained in the weight of metal indicated upon the face of the promise or order to pay the commodity. The value-giving factors in a printed promise to pay £1,000 may be ·058855 of 1 troy grain

of pure gold, or one-eighth of a penny, whereas the weight of gold promised is 113,001·605 troy grains of pure gold.

Article XIV.—It is not any description of token, such as silver or bronze coins in countries possessing a gold standard, or gold or bronze coins used in countries possessing a silver standard. For these coins are not intended to possess the value-giving factors equivalent to the value-giving factors which are in the standard substance for which they pass as tokens.

Article XV.—It is not a counter. For the same reason that a counter need not possess value-giving factors in near relation to the value-giving factors in the services, commodities, and properties for which it is exchanged.

Article XVI.—" It is not something which is more or " less than a commodity." Neither " is it anything which " is paid by anyone," as the German word *geld* at the beginning of the fourteenth century A.D. is said to have meant.

With regard to the definition of money, Coin and the writer are in absolute agreement. It may be expected that when Coin has studied the world's present six monetary and currency intermediaries, the mechanism of prices and the foreign and colonial exchanges resulting from them; in fact, when he has acquired the knowledge possessed by the Jews, financiers, foreign bankers, and dealers in titles to foreign properties, international traders in commerce, and the experts in the foreign and colonial interchanges of these six intermediaries, he will be quite prepared to accept the writer's limitation of the term "money" to the standard substance appropriated to currency purposes in the shape of bullion and coin. The writer has indicated by different type in the record of Coin's views that which must be particularly noticed.

Under 9 he describes money, or a measure of value "the commodity to which a fixed and stable " value has been given." There is nothing which has either a fixed and stable cost value or exchange value. All the Governments in the world could not by any conceivable legislation compass this. Under 11 he makes the mistake of asserting that token money is the Government promise to give commodity money. This is not so in any part of the world. Silver token money is final discharge in all the aspiring local dual standard countries, if there be such anywhere. Certainly the few actual gold standard countries which are overburdened with silver, and had before 1873 two metals to make one standard substance, make silver, or notes based on silver, legal final payment in unlimited quantities. This being so in the United States, the statement in 20 is not true in the sense of a diminution of the currency, and in no way does it vitiate the statement advanced in the first paper in *The Accountant* of the 26th September: " Coin has " not shown that the United States or any other gold " standard country is suffering from a deficiency of " currency intermediaries." With respect to 25, it is impossible to make things which are essentially different the same. Money is one thing; promises to pay it, and tokens of it, are other things. It may be realised in the course of time that it is the duty of the State to be the issuer of all notes payable on demand, and to keep such reserves of the standard substance that under any and all conditions the standard substance shall be forthcoming in exchange for all promises to pay it.

Let very careful attention be paid to the twenty-sixth statement. The writer has stated that he cannot find between the covers of *Coin's Financial School* any reference to the Gresham law. Let the vision be clear, and the understanding free of cobwebs. There are two clauses. One reads thus: " It is im- " possible to maintain two kinds of redemption money " with one made from property having a commercial " value of only one-half or any noticeable per cent. " less than the other." So Oresme, Copernicus, and all the worthies from the fifth century B.C. to the present time have maintained in defence of monometallism. It is the Gresham law. But now follows a most wonderful sentence. It is the Gresham law turned upside down. " When such is the case the lesser " must lean on the greater, and to all intents and pur- " poses becomes credit money, while the more valuable " becomes the only redemption money." Experience under the term Gresham law, following upon the truth conveyed in the first paragraph of 26, adds the further truth, not quite in Coin's own words: When such is the case the cheaper metal drives out the dearer metal, and that which was the credit money becomes the redemption money. In this we are in agreement with our bimetallist friend the expert in the foreign and colonial exchanges.

In 29 it is asserted that the quantity of commodity money becomes the measure. The writer would say the quality, not the quantity.

There are some interesting and not at all inapt diagrams illustrating eight lessons to represent proportions between primary money, credit money, cheques, drafts, &c., notes, bonds, mortgages and accounts. Since silver tokens and notes on silver have acted as primary money in the internal circulation of the Uuited States, the cubes at the base of lessons 7 and 8 should be of the same size as in the six preceding lessons. The fourth lecture is taken up with the cost of producing silver. On this the writer would only say that he believes that the present natural ratio between the metals is not less than sixty parts of silver to one part of gold.

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